

September 2, 2022

Mr. Emanuel Mori
Interim President and CEO
College of Micronesia-FSM
P.O. Box 159
Kolonias, Pohnpei 96941

Dear Mr. Mori:

In planning and performing our audit of financial statements of College of Micronesia-FSM (the College) as of and for the year ended September 30, 2021 (on which we have issued our report dated September 2, 2022), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the College's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to the College's internal control over financial reporting and other matters as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Regents, also dated September 2, 2022, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of management, the Board of Regents, others within the organization and the Federal cognizant agency and is not intended to be, and should not be, used by anyone other than these specified parties.



We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of College of Micronesia-FSM for their cooperation and assistance during the course of this engagement.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, slightly stylized font.

SECTION I – DEFICIENCIES

We identified the following deficiencies involving the College's internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

1. Fixed Assets

Comment: The following fixed assets matters were noted:

- Two of seven assets tested were not tagged.
- Two of seven assets tested were disposed of and were not timely retired from the fixed asset register. Management did not consider the misstatements material to the financial statements.

Recommendation: The College should consider conducting periodic verification of fixed assets and tag applicable property and equipment to facilitate accurate record keeping and accountability and to improve control procedures over fixed asset monitoring.

2. Auxiliary and Other Revenues

Comment: The College incorrectly recorded internal sales of \$382,240, resulting in an overstatement of revenues and expenses. Management did not consider the misstatements material to the financial statements.

Recommendation: We recommend the College review internal sales for propriety.

3. Employee and Travel Advances

Comment: At September 30, 2021, the College has outstanding other receivables of \$437,781 comprising of travel, employee advances and miscellaneous receivables from non-federal grants and programs. A corresponding allowance for doubtful accounts of \$363,710 was recognized at September 30, 2021 and a potential understatement of \$98,711 was further identified and included in the summary of uncorrected misstatements.

Recommendation: We recommend that travel advances be timely liquidated and that collectability of other receivables be reviewed to adopt an appropriate course of collection.

4. Staled Dated Checks

Comment: As of September 30, 2021, the College has stale dated checks amounting to \$161,171 mostly comprised of unclaimed Pell grant student refunds. The College has initiated communication with USDOE and is awaiting payment instructions of the determined liability.

In addition, the College has an outstanding student refund liability of \$29,536 associated with the Asian & Pacific Islander America (APIA) Scholarship. An adjusting entry was provided to correct this liability.

Recommendation: We recommend management adopt policies and procedures that govern efficient claim processing and issuance of student refunds.

SECTION I – DEFICIENCIES, CONTINUED

5. Unearned Revenues

Comment: At September 30, 2021, the College has outstanding a deferred revenue balance of \$100,034 arising from other small grants and sponsored programs received from the FSM National Government between 2010 through 2013. The College represented that investigation of this outstanding balance is still on-going.

Recommendation: We recommend management timely review long outstanding deferred revenues and adopt an appropriate course of action.

SECTION II – OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1. Procurement

Comment:

- a. The following procurement transactions lacked adequate competitive procurement process documentation:

| <u>Reference Number</u> | <u>Amount</u> |
|-------------------------|---------------|
| PO21-01507 | \$ 4,500 |
| CT21-0313 | 25,789 |

- b. The invoice and receiving report for PO21-00463 amounting to \$74,200 were not timely filed and available for examination.

Recommendation: We recommend that the College comply with existing procurement policy and procurement files be maintained.

2. FSM Social Security

Comment: The College incurred a \$1,000 penalty and \$192 of interest charges due to a late filing of a social security quarterly return for the quarter ended September 30, 2021.

Recommendation: We recommend management timely file statutory FSM social security returns.

SECTION III – DEFINITION

The definitions of a deficiency, a material weakness and a significant deficiency are as follows:

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

College of Micronesia-FSM's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.